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An Empirical Study on the Impact of Micro-Credit Financing on the Socio-Economic Status of Small Agriculturists in Pakistan

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ABSTRACT

This study empirically studies the impacts of micro-credit finance on the socio-economic status of small agriculturists in Pakistan. Little research has been conducted in this area in Pakistan. The data was gathered from 693 micro-credit finance participants and non-participants, at a 2 to 3 ratio, through an adapted questionnaire from the 8-clusters out of 12 clusters of 36 districts of Punjab using the cluster sampling technique. A survey was organized to perform the investigation in which two close-ended structured questionnaires were developed to collect data from the small agriculturists who owned less than twelve and a half acres of land. Both descriptive and inferential statistics were used to analyze the results of the study. Various statistical tests, such as EFA, SEM, KMO, ANOVA tests, etc., were used to test the expected hypothesis of the study and to confirm the affinity among variables. This research revealed that micro-credit finance has performed a positive role in developing the socio-economic status of small agriculturists after obtaining the micro-credit finance. The study indicated that micro-credit finance has played a significant role in changing and developing the socio-economic status of the respondents. Participation of small agriculturists enables the poor masses of rural areas to eradicate poverty in rural areas to enhance their living standards and to strengthen their financial conditions. The end results of the study revealed that most small agriculturists were taking benefits from micro-credit lending schemes. They also improved their socio-economic status and mitigated poverty. The findings of the study provide profound insight and should be helpful to regulators, policy makers, managers, microfinance institutions, government authorities, and all other stakeholders.



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1. Introduction

In accordance with the latest census 2017, there were 207,774,520 people living in Pakistan (Government of Pakistan, 2019). 57% of Pakistanis are living on less than US \$2 per day. Moreover, 45.59% of the population in Pakistan has been struck by multifaceted poverty; 26.46% of Pakistanis are facing violent poverty.

The agriculture sector of Pakistan is pivotal to our state, and its part in GDP is approximately 18.5%. It is held accountable for 38.5% of the employed human resource and is the biggest source of foreign exchange (Government of Pakistan, 2019). Agriculture enhancement is vital to developing economies, including Pakistan's. The agriculture sector shoulders the responsibility of 65.5% of exports from countries, excluding the export of leather (Government of Pakistan, 2019). The study of Spio (2002), in the Northern Province of South Africa, explained that the famous financial experts like Falcon and Mellor clearly identified that new technologies, price concessions, and encouraging infrastructure are basic commitments for agricultural development. Furthermore, the meager work of the agricultural field in developing countries is due to the lack of economic opportunities in the agriculture sector (Spio, 2002).

Micro finance in Pakistan was introduced on a conventional basis during the 1960s. In accordance with the State Bank of Pakistan, reported MFBs, MFIs and commercial bank loans extended to the poor agriculturists, tenants and all other farmers was Rs.1,173,989.50 million and the number of borrowers was 3,894,075 in all Pakistan out of which 1,512,926 agricultural borrowers obtained Rs. 495,039.4 million in the Province of Punjab; 1,410,870 borrowers are subsistence holding who received Rs. 160,822.8 million during the 2018-19 financial year (SBP, 2019).

Other aspects of the debt imposed on small agriculturists is due to different input (seeds, pesticides, fertilizers) costs and credit finance. After harvest, the small agriculturists have so little profit that they are compelled to credit finance again to get their profit from the next crop, which provides much more for their family to live on. No doubt poverty is a big challenge confronted worldwide; it gives birth to a number of other issues. Researchers are of the view that poverty, wealth inequality, and unfair allotments of land have crucial connections with world-wide dissatisfaction, anarchy, anxiety, murder and bombing.

One of the major benefits of microfinance is that it provides fiscal facilities to the poor individuals and groups, and it makes them economically viable. It contributes to economic growth by providing ordinary individuals with the opportunity to create a long-term source of revenue. Ultimately, the expansion in spending money will move to stable development.

Zulfiqar (2013) has urged to execute investigation on the social and economic influence of micro loans in Pakistan. Nevertheless, the latest techniques were not taken into consideration while collecting ample data analysis in various research carried out about micro-credit in the field of agriculture. Moreover, the research suggests examining the living standards of beneficiaries and various relatives to see to what extent the beneficiaries would have been if they did not take part in MFIs programme. Consequently, there are many good reasons to conduct the study given below: This study focuses on the influence of micro-credit lending on the performance and socio-economic status of small agricultural and demographic conditions and the livelihood level of the agriculturists lived in far-flung parts of Pakistan. This research will divulge whether participating in micro-credit finance will ultimately help small agriculturists to enhance their socio-economic status in Pakistan. This research will also evaluate the effect of participating in micro-credit finance and whether it really supports the poor small agriculturists and tenants to come out from poverty. This research will find out that the micro-credit finance really lends to the poorest small agriculturists among the poor.

2. Literature Review

The idea of micro-credit finance was proposed in 1970 by the economists, Mr. David Bassau and Mr. Muhammad Yunus. He lent the money to the poorest of the poor in Bali and Bangladesh. This microloan supported the needy individuals to start small businesses, and the income allowed them to provide food, housing and primary commodities. Micro-credit finance mainly provides fiscal facilities for the needy individuals. The poor persons were not able to get any kind of loan due to poverty and the absence of any assets for surety from any bank or institution.

Micro-credit helped the needy persons in less developed states to start their own small businesses and to build their own future by getting rid of poverty.

The agriculture sector is the foundation of third-world nations and has the capability to support agriculturists' crop production growth, economic development and rural poverty reduction (Zeller, 2003). Of course, rural poverty reduction is related to agribusiness achievement, especially agricultural growth rates. Although the agricultural sector has made a huge contribution to the economy, rural areas in third-world nations are in the developing stage and the rural individuals are substandard in general. Agribusiness enhancement is dominant to mitigate poverty by increasing the volume of agriculture goods and services, efficiency and development. The IBRD highlights the importance of the agricultural field to reduce poverty in developing countries. The growth rate of agricultural gross domestic production was always double the growth of non-agricultural GDP growth in terms of poverty reduction. Accordingly, much consideration is needed to subsidize agriculture smallholders and small agribusinesses (Zeller, 2003).

The Aga Khan Rural Support Program has been working hard to design its loan products. The organization commenced different micro-credit schemes in 1982 in these areas. It balances various factors such as social cohesion, uncomplicated approach to financial resources for participants, investment and their sustainable growth. After that, the Kashf Foundation was established in 1992. This organization started their function by the coordination of a German organization. It is the first private microfinance institution supported by a German organization. NRSP was also launched in Rawalpindi to reduce poverty in certain regions. A few non-governmental organizations made an alliance and launched the Pakistan Microfinance Group in 1998. This alliance was formally established in 2001 under the name of PMN. The official institute was dedicated to capacity building and development in the field of micro-credit finance (Khalid et al., 2002).

In the 1960s to 1970s, countryside progress was similar to farming growth and crops' productivity, and its main goals were to augment farming productivity. The focal point is mainly on subsidized agricultural sector. The centre of attention in 1970s was to enhance the countryside progress by giving community assistance and resources for the needy small agriculturists. At present, the theory of countryside progress includes incremental development, profitability and productivity. In general, this is related to living standards, economic development, advancement in healthy conditions and diet, schooling, friendly environment, equal distribution of economic resources and poverty mitigation (Anríquez & Stamoulis, 2007).

2.1 Poverty Alleviation

Poverty is a very serious problem in under-developed countries like Pakistan. Poverty has existed in the last many years in these states because it requires clear thinking and appropriate plans for economic development. The notion of poverty reduction is multidimensional. The World Bank explained that poverty is due to poor educational opportunities, lack of economic resources, lack of medical facilities, lack of adequate food, lack of empowerment and a bad security situation in the country. Constructive and viable poverty reduction and countryside advancement need certain guidelines in the strategy. Without knowing the wants and requirements of the farmers, one cannot focus on poverty reduction. Therefore, farming has come to be an indispensable part of countryside enhancement. Large landlords benefit from government grants for water and agriculture, and get maximum advantages from agricultural productivity. Nevertheless, in 1959, 1972 and 1977, three land reforms were carried out. However, the feudal system still survives in all provinces of Pakistan. It is necessary to apply new land reforms in the country, so that land will be equally distributed among the landless farmers. Approximately two percent of landlords hold about 45% of the land in Pakistan (The World Bank, 2011).

2.2 Change in Socio-Economic Status

Changes in socio-economic status are the continuous systematic tools. By the help of these tools, poor farmers overcome the problems that most affect their social and economic growth. This is a multifaceted technique that allows individuals to manage their own survival (Adegbite & Adeleye, 2011). Economic growth indicates to the fiscal security of survivors. Benson *et al.* (2011) pointed out that the enhancement of local NGOs and financial institutes is essential to increase income level of the poor in rural areas for their socio-economic betterment. Banerjee (2015)

asserted that there is an important link among the advanced local NGO cooperatives in remote control regions and the socio-economic enhancement of the population of countryside regions (Benson et al., 2011).

The study by Mghenyi (2015) identified that the poverty alleviation target can be achieved by the enhancement of the socio-economic status of the poor farmers by providing financial assistance. The social and economic stability of the population is the major factor that influences social growth of the rural public, and it helps them to be financially self-reliant. The mainstream literature has clarified that there is an important relationship between microfinance and economic growth by providing fiscal assistance (Mghenyi, 2015). Through micro-credit schemes, women have the right to make choices to increase their productive role and to reduce poverty (Caracciolo, 2014).

Microfinance is used under several titles around the globe. How do we understand it from the start, especially in the twentieth century? Micro-lending has worked in various civilizations. The long figures show the historical background and the evolution of micro-lending.

According to the research of Mwakaje, (2013) from Tanzania, the impact of microfinance, especially on small agriculturists' productivity, was evaluated. The weather conditions and rainfall conditions in Tanzania are very similar to Pakistan; therefore, interviews were executed to collect data with the help of a close-ended questionnaire. According to the results of this study, it was noted that there was a big difference between small agriculturists who benefit from microfinance and the small agriculturists who did not use any microcredit financial assistance. Their study explored that the credit users produced thirty-two bags as compared to non-credit users who produced only eighteen bags per acre of maize and sunflower.

According to Shah *et al.* (2015), the study was conducted in District Mastung (Balochistan) to evaluate the impact of BRSP microcredit schemes on the agricultural development of the farmers of district Mastung (Balochistan). In this study, they collected data from 60-BRSP micro-credit borrowers of four tehsils of District Mastung by using a simple random sampling technique. They used a structured questionnaire. The data was analyzed by Chi square test through SPSS software. The results of this study showed that the repayment schedule of microcredit was not easy, and the loan amount should be increased for the betterment of farmers and for more productive results in agricultural development. The access of loan was limited for needy females. The results showed that micro-credit has a significant impact on the agricultural development, living standards, and socio-economic conditions of the borrowers. The study also identified that the micro-credit schemes should be to reach needy females of the rural areas of Balochistan, so they will be able to improve their economic conditions (Shah et al., 2015).

Misra (2019) revealed in her study the miserable smallholder villagers of Patuakhali in Bangladesh, whose land is affected by the river tide every year. They face difficulties growing common types of domestic rice. They want to cultivate the latest kinds of crops, but due to financial resources, they are unable to cultivate the latest breeds. So, they need other financial resources. In this article, the researcher pointed out that a subsidized agricultural credit system has made microfinance a powerful force in destroying farmers. The physical production of small farmers is rarely linked to the accessibility of loans. However, in the current period, solvency is necessary to dispose of agricultural household goods. For this reason, their demand for money is consistent and uniform. The real complexity of these people who depend on microfinance institutions to meet their credibility demands and the implications of this dependence on the neoliberal agricultural structure of Bangladesh cannot be dissociated. The transformation from traditional to modern agriculture has aggregate seeds for the economy in rural areas and has brought millions of miserable villagers to the capital market. Farmers do not hesitate in the market; they often welcome the possibility to sell more products. However, when the market regulates their access to food, all the foundations of the peasant economy are faced with a survival crisis. Long-term borrowing from microfinance institutions makes the market a leader in farmers' lives and discloses them to market threats, opportunities and volatility.

A study by Shah *et al.* (2015), conducted in Mastung (Balochistan), evaluated the impact of PRSP micro-credit schemes on agriculture development. The data was collected by a simple random technique and 60 samples were collected from males and females in four tehsils of District Mastung through a closed-ended questionnaire. The results

were verified by Chi Square test in SSPS software. The majority were male participants. The results showed a significant impact of micro-credit on agriculture development of the farmers in the study area (Shah et al., 2015).

Various investigations in various countries justified the significant correlation among micro-credit finance and socio-economic status of small agriculturists. In the study of Lawin *et al.* (2018), the researchers evaluated the impact of micro-credit on farm and rural households who used modern techniques. The secondary data was used for the study. The results showed significant influence on the farmers' revenue and production in different areas (Lawin et al., 2018).

A study from India by Banerjee *et al.* (2015) carried out an investigation on rural women who were randomly selected among micro-credit participants. This study also validated that the micro-credit finance showed a significant impact on the small farmers of India, but its impact on seasonal growers who have a non-saving showed less impact like others (Banerjee et al., 2015). Crépon *et al.* (2015) from Morocco carried out research. In the study, they investigated the influence of microfinance on small agriculturists. The results of the study explored the positive impact of micro-credit finance on the investments of small agriculturists in Morocco who also used the latest agriculture technologies (Crépon et al., 2015).

Another research from Maxico conducted by Angelucci *et al.* (2015) examined the relationship between micro lending and growers' revenue and income. The study identified the insignificant relationship among the variables (Angelucci et al., 2015). The study carried out by Islam (2015) in Bangladesh examined the impact of micro-credit on the poorest households. The study explored the limited positive impact of micro loans on male participants as opposed to female participants who gained more benefit (Islam, 2015).

Millions of people around the globe have benefitted from microfinance services with easy rescheduling mechanisms. It has been adopted to mitigate poverty all over the world. Saeed (2014), carried out a study to appraise the contribution of micro-credit and the factors putting impact on its development in developed and developing states. The information was gathered from publications, periodicals, reviews and previous studies. An explanatory design was used to express the research examination findings. A digital snowball was used for sampling on different dimensions of the micro-credit services; its lending, interest rate and different products were focused in the study. The results revealed that for real benefit, it must reach the targeted poverty areas of rural domains (Saeed, 2014).

It further focused on the accomplishment feature of microfinance and interest rates and offered loans but these aspects could be controlled easily. Other conclusions for micro-credit growth in developing and developed countries were security issues, funds and credit rating agencies and interception from the government on big issues. NGOs have played a key role in improving the agricultural sector. Eneji *et al.* (2013) organized a study in Benue State from Nigeria to examine the impact of NGO fiscal support given to minor agriculturists in Nigeria to increase their revenue. They collected quantitative and qualitative data for their research. They divided the research area into six parts, and 4 areas were elected randomly. Two hundred twenty agriculturists out of 2200 agriculturists who were getting finance from 5 NGOs were elected randomly from 4 parts of the state for research. Their results have shown that the loans were given according to their agriculture land unit. That increased the level of revenue and decreased the poverty. So, the other agriculturists were also involved in these schemes and did their part to enhance the country's economy level. They gave suggestions to policy makers, international financial institutions and the government to increase these types of schemes (Eneji et al., 2013).

According to the study of Lyngdoh and Pati (2013) from the Matrilineal Tribal Society of India, past studies suggests that micro-credit loans have an effective influence on distinct zones of society and sections of the population. Their research was carried out in lineal Indian tribe communities to study the effects of micro-credit loans on female strengthening. Data was gathered to examine the research purposes for the period of 5 financial years, which were 2004-10, by using a stratified sampling approach from three hundred females in MFI customers and one hundred females in non-MFI customers. So as to evaluate the influence of micro-credit loans in the research, they utilized the analytical methods to compare the results of the study. The study summarized that micro-credit loans enhance the

capabilities of MFI female participants. Data was gathered on the grounds of reminders and may have limits on the actual results displayed (Lyngdoh & Pati, 2013).

A study was carried out by Obisesan (2013) in Cassava from South West, Nigeria. The researcher used a closed-ended questionnaire for interview. The target group for the research was the needy poor rural who obtained micro-credit loans from MFIs. The outcomes of the research analysis identified the positive relationship between micro-credit finance and production as well as their living standards of life of the micro-credit participants. The study reported that micro-credit finance was a good tool for agriculture enhancement in rural areas (Obisesan, 2013).

Farming is an important part of the economy in all countries. The sector of agriculture acts as a pivotal contribution in the economic enhancement of the state. It creates employment for jobless youth, both males and females, especially in rural areas. It also fulfilled the food requirements of the country (Win, 2019).

3. Methodology

This research was carried out in the province of Punjab (Pakistan). The small agriculturists (farmers) of Punjab were randomly selected for data collection. The small agriculturists (farmers) who were cultivating land from more than zero to twelve and half acres and getting micro-credit finance services form different financial institutes were selected for the sampling frame. In this study, a cluster sampling tool was applied and the population consisted of 12 clusters and only eight clusters were selected for data gathering where the number of participants in micro-credit finance were very high. This is a very effective tool to reduce survey expenditures due to random reduction in localities elected for assessment.

To get primary data, every small farmer was visited in-person at their doorstep in their villages and towns as well as at their agriculture farm sites. The data was collected from male and female rural small agriculturists in Punjab. Having developed the questionnaire, it was tested on a sample of 693 rural male and female small agricultural despondence (175 male participants, 205 male non-Participants and 160 female participants, 153 female non-participants) from Punjab, and the results were assessed to assure the questionnaire's reliability and validity. This qualitative approach increases the cause-and-effect interrelationship; thus, the outcomes can be generalized with respect to research. To save from the controversy of control bias, the questionnaires consists of a 7-point Likert scale as a parameter to scale the impact of participation in microfinance programs on small agriculturists' poverty elimination and their socio-economic firmness in Pakistan.

The current study applied Statistical Package for the Social Sciences 21 and Statistical Package for the Social Sciences Amos 23 version for SEM Analysis.

4. Conceptual/Theoretical Framework

The conceptual framework, Figure 1, illuminates the impact of participation in microfinance programs on socio-economic status of poor agriculturists in Punjab.



Figure 1: Conceptual/Theoretical Framework

This framework along with questionnaire has been refined and developed in light of previous studies and reports included in the literature. In order to establish its efficiency, the pilot testing of the questionnaire executed different tests along with factor analysis. This questionnaire proved to be successful in all the tests that were inducted and essential modifications were ensured to judge the instrument to keep its objective and purpose. A primary pilot test sample of 80 participants was expelled to assure the superior quality and uniformity of the data quality for this research.

5. Results

5.1 Descriptive Analysis

A total of 693 questionnaires were returned out of the total number of 800 questionnaires. These questionnaires were circulated in different remote and rural areas of Punjab.

5.2 Preliminary Tests

5.2.1 Multivariate Outliers

This study tested for multivariate outliers through the method specified by Tabachnick (2012), using the data from 696 responding persons on the 31 items relevant to the model. Multivariate outliers were identified through mahalanobis distance and tested the usage, $P < 0.001$. An analysis found 3 samples of P of more than 0.001, and 3 samples determined as outliers were thus removed. The survey samples of the rest of the 693 samples were utilized for the entire study (Shafique, 2017).

5.2.2 Normality Test

The survey samples were checked for normality using skewness and kurtosis. Meyers *et al.* (2006) indicates that data is considered to be normally distributed if the range of skewness and kurtosis exists among ± 1.0 and ± 3.00 accordingly. Therefore, this research can go forward with additional measurement for normality through K-S test, Lilliefors improved K-S test (Shafique, 2017). The data for the current study is normally distributed in accordance with the outcomes for normality presented in Table 1.

Model	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
PMF	693	.118	.093	-1.948	.185
SES	693	.213	.093	-.791	.185
Valid N (list wise)	693				

In general, these tests show that data is sound, valid and suitable for further analysis.

5.2.3 Multicollinearity Test

Multicollinearity was assessed through tolerance and VIF. A tolerance value of nearly 1 indicates less multicollinearity within the variables, while a value of nearly 0 shows high multicollinearity between the variables. Therefore, independent variables in the analysis were not affected by multicollinearity.

5.3 Reliability Analysis

The entire value of the Cronbach Alpha for the sampling frame is calculated at .811, which is greater than the minimum acceptable criterion of 0.7, which is recommended by Hair *et al.* (2010). This higher value for Cronbach Alpha determines very high reliability for 31 elements utilized in the questionnaire.

5.4 Inferential Analysis

5.4.1 Correlation Analysis

Pearson's correlation coefficient is used to obtain the strength of association among variables. The results of Pearson's correlation coefficient at 0.822 shows that the independent variable is considerably correlated with the dependent variable.

Structure Equation Model (SEM)

Standardized Estimates for the Model

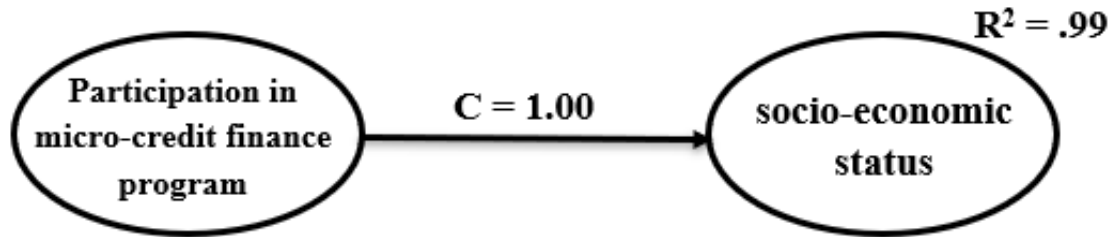


Figure 2: SEM Model Standardized Estimates

Figure 2 and Table 2 exhibit that the standardized beta estimates for the direct effect of PMF on SES (socio-economic status) is 1.00. In addition, Table 3 presents the value of coefficient of determination R^2 is .99 for SES. It indicates the contribution of exogenous construct PMF in estimating the endogenous construct SES is 99%.

Path	Standardized Beta (β) Estimates
SES ← PMF	1.00

Variable	Estimated (R^2)
SES	0.99

This reveals that the predictor of SES describes 99% of its variance. This indicates that the error variance of SES is around 1% of the variance of SES itself.

Un-standardized Estimates for the Model

Path	Actual Beta (β) Value	S.E.	C.R.	P-Value	Result
SES ← PMF	0.619	0.015	39.954	0.001	Significant

Table 4 specifies the original beta (β) value of .619 with a standard error of .015 illustrates the effect of PMP on SES. It means that, when PMF increases by 1 unit, SES increases by .619 units. The regression weight estimate is 39.954, standard error above zero. The probability of obtaining a critical ratio as large as 39.954 in absolute value is less than 0.001. It indicates that the regression weight for PMF in the hypothesis of SES is significantly changed from zero at .001 levels (two-tailed).

8. Identification of Model

This socio-economic status model could be categorized as an over-identified model because the degree of freedom of 349 is less than the sample movement of 406. Therefore, the purpose of SEM to have an over-identified model is obtained.

8.1 Model Fit Indicators

All model fit index values are within the acceptable range, indicating that the model has achieved a good fit in all model fit classifications: Absolute Fit, Incremental Fit and Parsimonious Fit. Indicators are deemed to be an absolute analysis of their related latent variables.

9. Conclusion

This research draws a conclusion that the role of microfinance is catalytic and very important particularly for the agricultural sector. The small agriculturists who are vulnerable to natural calamities of agricultural supporting stuff, social pressure causing financial difficulties for them to grow their crops, and availability of micro-credit finance, especially timely availability, prove to be a panacea for their troubles. The activities like provision of fertilizer, water, pesticides, and labour raises the need for financial services from micro-credit financial institutions, which are being served well, but there is always room for improvement, especially to improve the system of financial institutions. Profit of the small agricultural farmers is directly related to the crucial and positive role of microfinance institutions. This study shows that the independent variable has a direct and significant impact on dependent variables that enhanced their living standards, agriculture assets, agriculture production as well as increase their per acre income, which leads to mitigate their poverty. The research shows that participation in micro-credit finance schemes has a significant effective association between participatory micro-credit finance and the socio-economic status. The results indicate that these schemes change the plight of small agriculturists in Pakistan. These findings are also consistent with the results of Shafique (2017) and Win (2019).

Participation in micro-credit programs has a significant association with the rise in agriculture assets, revenue, income, crop production, increase in livestock, socio-economic status, improvement in housing, betterment of family members' schooling and health care services. These micro-credit schemes reduced the poverty from the lives of small agriculturists in remote areas of Pakistan.

Though, these schemes benefitted only persons who gave some collateral but not for the poorest of the poor in Pakistan, who have not the ability to show any type of surety to get micro-credit finance. Actually, the MFIs also work like commercial banks in Pakistan, whose main objective is to generate profit, not to support the needy persons. Therefore, the success of microfinance is eliminated, thereby deviating from its original aim and objective. These results are based on the results of Misra (2019), Meyer (2006), Mwakaje (2013) and Shafique (2017). Indeed, the research found that microfinance has little effect on the lives of the poor in Punjab because they are not able to participate in these schemes.

10. Potential for Future Study

The conclusions of this study recommend future recommendations as listed below:

- To get a good perception with the influence of microfinance on the participants' living standards, a study based on time series should administered.
- It is imperative to investigate MFIs and whether they focus on the poor small agriculturists.
- A study with a larger sample size can be fruitful.
- In-depth qualitative data from further research may be more fruitful showing particular variables that are overlooked in the research.

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